

Alberta Energy



AR05

Alberta Energy Company Ltd. Annual Report 1980



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Highlights

Financial

(All dollar amounts, except per share amounts, are in millions)

	1980	1979
Net Earnings	\$ 57.4	\$ 27.4
*Per Share	1.26	0.60
Cash Flow	116.4	60.8
*Per Share	2.56	1.34
Long-Term Debt	251.8	309.6
Working Capital	10.6	44.3
Total Assets	702.7	651.0

Production

Gas, billions of cubic metres	1.3	1.1
billions of cubic feet	46.5	38.3
Oil, thousands of cubic metres ...	491.0	306.9
millions of barrels	3.0	1.9
Coal, thousands of tonnes	600.2	488.0
thousands of tons	661.6	538.0
Lumber, million board feet	43.6	45.7

*Reflects 3-for-1 stock split

Annual Meeting

The annual general meeting of shareholders of Alberta Energy Company Ltd. will be held in the Capri Centre, 3310 - 50th Avenue, Red Deer, Alberta at 3:00 p.m. local time on Wednesday, April 8, 1981.

Copies of the Company's 1980 annual report may be obtained by contacting the office of the Secretary of the Company at Alberta Energy Company Ltd., #2400, 639 Fifth Avenue, S.W., Calgary, Alberta T2P 0M9.

Editorial

In recent weeks Western Canadians have variously been described as "hysterical, "rigid" and "paranoid" by various leaders of this country. Despite those ominous epithets, some people still cling to the old-fashioned attitude that it is possible to have different opinions and not be considered un-Canadian: this is called democracy.

Let's be positive for a moment, hazardous as that may be. It seems virtually certain that, despite the energy and constitutional quarrels now sharply dividing the nation, Western Canadians will survive. Alberta Energy Company will survive, as will the oil industry, which has demonstrated a remarkable ability to land on its feet somehow, somewhere. The issue is not one of survival of Western Canada; it is really the long-term best interest of all Canadians.

There is no doubt that political confrontations are delaying vitally needed future energy developments. Syncrude plant expansion is deferred, mainly due to unilateral cancellation of the synthetic oil price agreement, even before the plant has managed to reach a profitable level of operation. Cold Lake development is postponed and will be more costly if and when it proceeds. Alsands synthetic oil supplies could be lost indefinitely. And conventional oil exploration is not proceeding at a satisfactory rate. These are but some of the obvious examples.

Alberta Energy Company estimates that measures recently imposed under the new energy policy will reduce by approximately \$175 million the capital it would have had available for investment over the next five years. Fortunately, this Company, which is wholly Canadian-owned, is penalized less than some of the others. But, no matter how recently imposed taxes may be rationalized or debated, there surely is no doubt that our capital for investment in energy has been reduced.

Meantime, purchase of foreign crude is estimated to cost Canadians about \$7 billion in 1981 and is expected to escalate to \$13 billion by 1985. (Both numbers are net, after deduction of

revenue from oil exports.) Even if there should be timely and practical solution of the present controversy, Canadians are already faced with a crushing foreign payment burden. Our imported oil costs are substantial, and growing.

Yet, Canada has an abundance of gas, great potential for development of oil from oil sands, large thermal coal reserves and an extraordinarily large supply of potential nuclear energy from known uranium deposits. Despite these natural blessings, we purchase high-priced oil from other countries, for example Mexico, in preference to paying the same price to our own Canadian producers for superior quality oil. Canada now relies on foreign countries, many of them politically unstable, for about one-fifth of its oil needs. Our economy, employment opportunities and the well-being of our people are all vulnerable to political conditions in these countries.

So the battle rages, while Canadian investors compare opportunities here to those elsewhere; while further upheavals in some of the foreign lands currently supplying oil to Canada are certain to occur; while conventional oil supplies are diminishing; and while Canadian consumers pay a price for foreign oil that their government will not permit them to pay their fellow Canadians for Canadian oil.

There is speculation, at the time of writing these remarks, that agreement to increase crude prices might be reached. That would be an important step, but would not answer the concerns about what the increased taxes and dramatic changes in the national energy policy will do to Canada's future energy supplies. The public will hear only about the size of a price increase. Of greater importance, however, will be the net amount remaining for exploration after all government taxes and deductions as well as the long-term effect of other actions. Of one thing we can be assured...no matter what camouflage exists, it will be the consumer and the taxpayer who will bear the burden of this unnecessary political confrontation.

Report to Shareholders

1980 was another good year for the Alberta Energy Company. Investments in prior years, particularly in the Syncrude Project and for gas well development, resulted in substantial revenue increases.

The stock was split three-for-one in April 1980, and our 54,000 shareholders received a dividend of 15¢ per share, an increase of 50% over the prior year.

Gas and oil drilling programs continued on the Suffield Block and the Primrose Range. At Suffield, 445 gas and oil wells were drilled during 1980 and record gas production rates achieved. Primrose development has resulted in 93 wells to date, and there is continuing encouragement for potential production of heavy oil from oil sands. The Company's oil sands reserves at Primrose total approximately 8 billion barrels, but the development of this oil must be preceded by pilot testing to assess technical conditions and profitability.

Progress continues to be made at the Syncrude plant as evidenced by increased production for 1980 compared to the previous year. It is expected that the production rate will continue to increase as design modifications are implemented and operational experience is gained. At the time of writing this report, the plant was not producing at a rate adequate to pay even its operating costs, due to mechanical problems.

Pipelines are an integral part of the Company's operations. During 1980, the Alberta Oil Sands Pipeline transported Syncrude's 50-millionth barrel of production into Edmonton, and the Ethane Gathering System carried an average of 75,348 barrels of ethane per day from several Alberta gas plants for either petrochemical processing or storage. AEC has recently applied for permission to construct a pipeline which would transport bitumen that is being produced by pilot plants in the Cold Lake area.

A number of cost reduction and productivity improvement programs were implemented at the Blue Ridge lumber manufacturing plant. These

improvements lessened the unfavorable impact of low lumber prices in 1980 and will permit improved profitability in the years ahead. AEC has considerable interest in further developments in the forestry industry.

Production at the Coal Valley project has grown each year since 1978 bringing the plant to design capacity in 1980. AEC's 25% of the total 1980 production amounted to 600 thousand tonnes (662 thousand tons).

Petrochemicals are beginning to play an increasing role in AEC's operations. Design work for a benzene plant is well advanced, with site preparations scheduled to commence in 1981. Petalta has also applied for a permit to construct a world-scale ethylbenzene/styrene plant, and early in 1981 AEC and a partner filed an application for approval to construct a third petrochemical facility, a polyethylene plant. These projects, when granted the necessary approvals by regulatory authorities, will represent an AEC petrochemical investment of more than \$500 million.

1981 will be a year of significant investment decisions for Alberta Energy Company, at a time when energy mega-projects are in a state of uncertainty and taxation is impacting heavily on near-term financial growth. The Company will adapt and move ahead in these new circumstances with projects such as those described above, while also looking forward to increased investment in Canadian oil and gas as conditions warrant.

DAVID E. MITCHELL
President & Chief Executive Officer

25 1/4 - 12 1/2



Towed by three powerful D-8 caterpillar tractors, this large 'cut-and-cover' pipeliner is laying two-inch steel pipe.

Alberta Energy: Growing Participation in Development of Energy and Industry



The concept which led to the formation of Alberta Energy Company Ltd. six years ago was virtually unique in the Canadian energy industry. An objective was to involve people who are not normally investors, giving them an opportunity to put some of their savings to work and become involved in the development of Alberta's energy resources.

1980

Second dividend declared

Application filed for Cold Lake bitumen pipeline

Application filed for Judy Creek CO₂ pipeline

Application filed for ethylbenzene/styrene plant



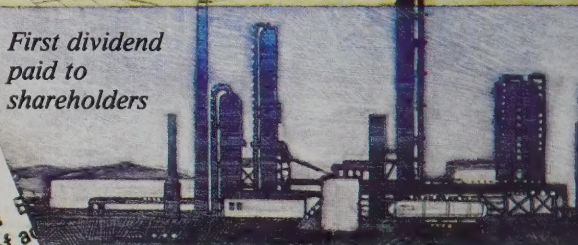
1979

Alberta Energy

AND NOTICE TO SHAREHOLDERS

Alberta Energy Company Ltd. has declared a dividend of \$0.15 (15¢) per share on the common shares of the company for the year ended December 31, 1979, to shareholders of record as of January 15, 1980.

First dividend paid to shareholders



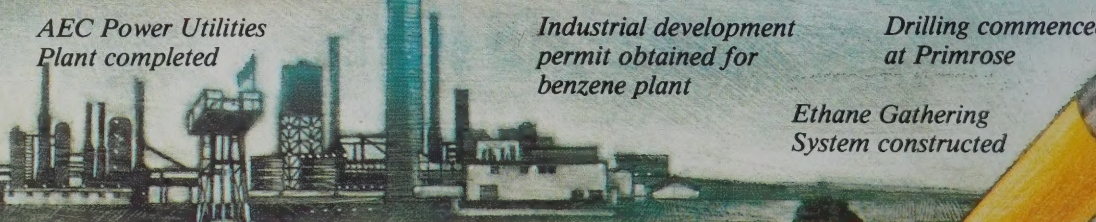
1978

AEC Power Utilities Plant completed

Industrial development permit obtained for benzene plant

Drilling commence at Primrose

Ethane Gathering System constructed



1977

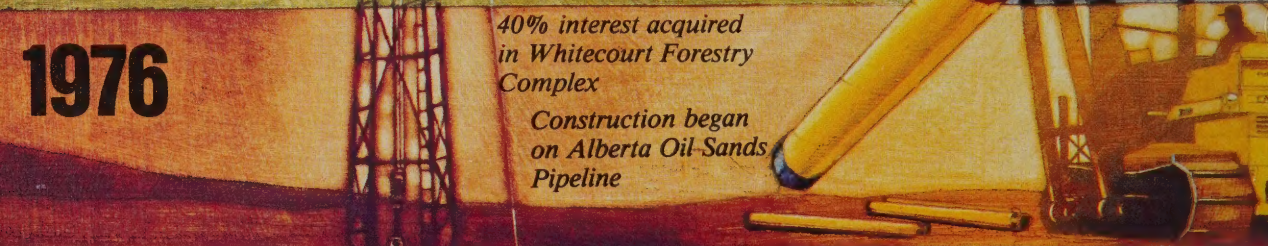
Alberta Oil Sands Pipeline completed



1976

40% interest acquired in Whitecourt Forestry Complex

Construction began on Alberta Oil-Sands Pipeline



1975

Alberta Energy Company Ltd. began active operation

Shares sold to the public

Shallow drilling program started on Suffield Block





Corporate History

The collage above provides a graphic record of the growth of Alberta Energy Company during its six-year history, beginning with its Suffield Block drilling program in 1975, and continuing through to the events of 1980.

Today, altogether the shareholders of Alberta Energy Company would be greater than the population of cities such as Red Deer, Alberta or Sydney, Nova Scotia. With more than 54,000 names on the shareholder list, the Company has more Canadian shareholders than all but four other publicly-traded Canadian companies. In fact, 100 percent of AEC's shareholders are either Canadian residents or Canadian citizens.

The Company began operations in January 1975 with a staff of four. In six years, that staff has grown to 337, with 107 of those employed in the field and 230 in the Calgary and Edmonton offices.

In addition to gas and oil operations on large military blocks at Suffield and Primrose, Alberta Energy Company has invested in a variety of areas within the energy and natural resource industry. Among them are pipelining, including the Alberta Oil Sands Pipeline and the ethane gathering pipeline system; coal mining in west-central Alberta; lumber manufacturing in western Alberta; the AEC Power Utilities Plant at the Syncrude Project; and other activities detailed in the following pages.

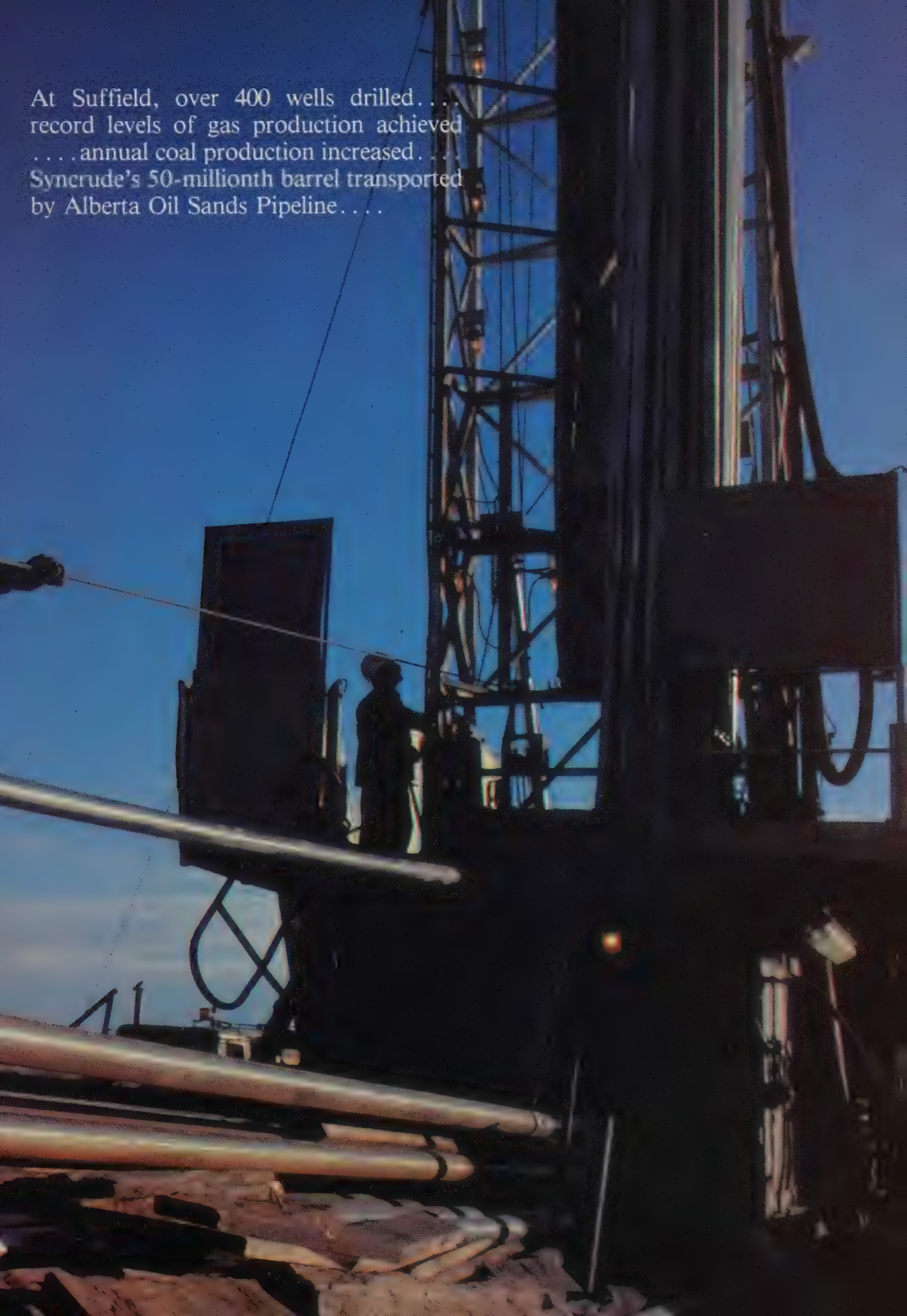
Alberta Energy Company's philosophy can be summed up in three words: participation, progress and profitability. The form of AEC participation in projects depends on the circumstances surrounding each investment. In addition to undertaking projects on its own or through subsidiaries, AEC participates in projects with others through affiliated companies or joint ventures. The Company prefers to participate in projects in a way that permits the cash flow of the project to be received directly, rather than holding a minority share interest in other companies.

Highlighted by the afternoon sun, this silvery length of drill pipe is being lifted from its bed prior to its 1,000-metre journey into the subterranean depths.

1980: A Year of Record Growth



At Suffield, over 400 wells drilled....
record levels of gas production achieved
.... annual coal production increased....
Syncrude's 50-millionth barrel transported
by Alberta Oil Sands Pipeline....



Alberta Energy: Mapping the Progress

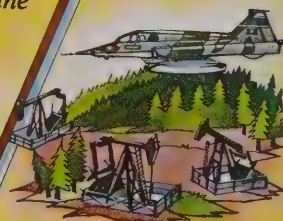
*Syncrude Project
and
AEC Power Utilities Plant*



*Whitecourt
Forestry
Complex*



*Alberta
Oil Sands
Pipeline*

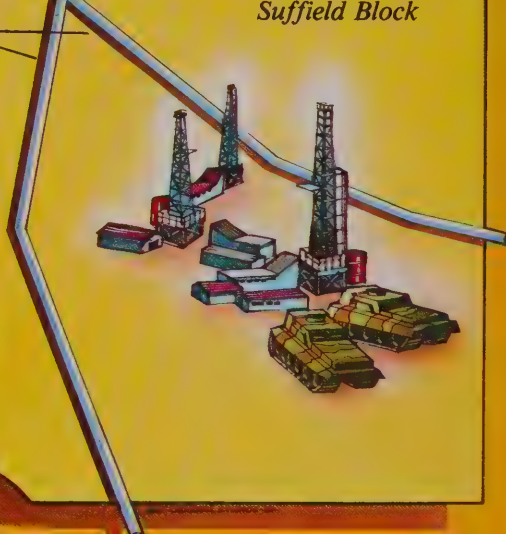


Primrose Range

*Coal Valley
Project*



*Ethane
Gathering
System*



GAS AND OIL

Active gas and oil drilling programs continued on both the AEC Suffield Block and Primrose Range during 1980. Specific information on the two programs follows.

Suffield

Estimated AEC Gas Reserves: 45.4 billion cubic metres (1,612 billion cubic feet)

1980 Production: Gas - 3.6 million cubic metres per day (127 million cubic feet) Oil - 57 cubic metres per day (361 barrels)

1980 Wells Drilled: 429 Gas, 14 Oil, 2 Gas & Oil

Total Wells Drilled to Date: 1,615 Gas, 53 Oil, 22 Gas & Oil

Gathering Pipeline Laid During 1980: 484 kilometres (301 miles)

Gathering Pipeline Laid to Date: 2,010 kilometres (1,228 miles)

Investment by AEC to Date: \$231 million

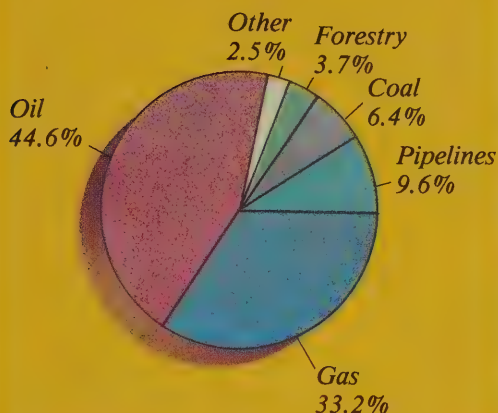
The Suffield Military Block is an active military range, where the armed forces of four nations test their latest weaponry and military strategies. The unlikely combination of gas and oil drilling intermixed with military activity arose in 1975 when AEC successfully negotiated a unique agreement with the Department of National Defence to gain access to the Suffield Block near Medicine Hat.

This co-existence has necessitated many technological innovations, such as development of grate coverings for below-ground gas well heads which could withstand the impact of a 66-tonne Chieftain army tank travelling at 50 kmh.

Special systems to control movement of men and machinery — systems such as Range Control at the Suffield Military Base, which coordinates the movement of more than 200 vehicles on the Block each day — also were implemented.

1980 has been AEC's largest drilling and pipeline construction year, to date, in the Suffield Block. As well, six compressor station additions were built, the largest program in a single year.

Sources of Revenue



Primrose

Estimated AEC Gas Reserves: 1.6 billion cubic metres (57 billion cubic feet)

Estimated AEC Heavy Oil In Place:

1.3 billion cubic metres (7.9 billion barrels)

1980 Wells Drilled: 22 Gas, 5 Oil, 13 Gas & Oil

Total Wells Drilled to Date: 40 Gas, 13 Oil, 40 Gas & Oil

Investment by AEC to Date: \$27.3 million

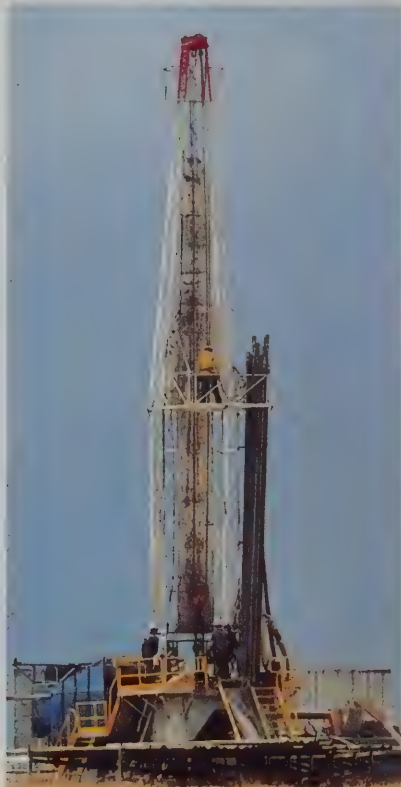
Alberta Energy Company acquired the petroleum and natural gas rights to the Primrose Air Weapons Range in 1978. An access agreement similar to that for the Suffield Block was negotiated with the Department of National Defence since this vast area of muskeg and forest has for years served as the training area for supersonic jet pilots based at Canadian Forces Base Cold Lake. As at Suffield, the coordination of the oil and gas activities with military training and testing has progressed very well indeed, founded on an attitude of mutual cooperation and respect.

Primrose is situated in a heavily forested region typified by rivers, lakes, streams and muskeg swamps which present a unique challenge, particularly during the summer months when ground access to drilling sites is virtually impossible. For this reason, summer operations require that equipment be transported by helicopter to the drilling sites.

Despite these challenges, the seismic and exploration drilling programs over the first two



The somewhat standard view of a drilling rig as perceived by the casual observer (below) takes on a much more dramatic effect when viewed from the perspective of the drilling crew (left). This scene is repeated many times during the course of a year, as AEC continues its search for gas and oil. On the facing page, at top left, a mighty roar splits the air as hydraulic fluids and water are released from a just-completed Alberta Energy Company gas well. The fluids, under thousands of kilopascals of pressure, are used to fracture rock hundreds of metres below, thus improving on the productivity of the well. Top right: Crews monitor powerful pumping equipment at a new well site, as fluids are pumped into the well to fracture down-hole rock. Lower right: Workers are zaplocking pipe during gas gathering system construction.





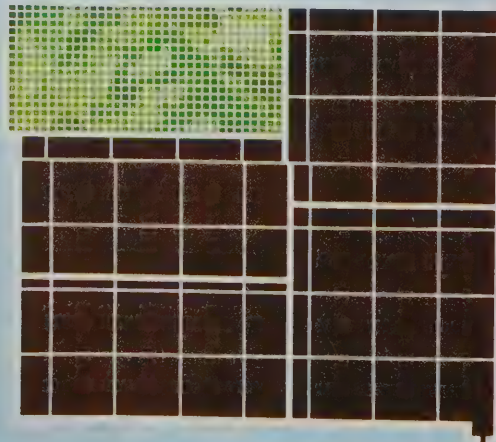
An aerial photograph of a rural landscape in north-central Alberta, Canada, showing a green field with a small pond and a few buildings. A white grid is overlaid on the image, representing the land ownership or drilling rights. The grid lines are spaced out, and some areas are highlighted in yellow, indicating specific sections of the block.

The Primrose Block

A vertical cross-section of the Primrose Block in north-central Alberta provides a graphic example of the many layers and formations penetrated in the difficult search for gas and oil.

From the heavy muskeg and water surface, through the subterranean layers below, the drill bit penetrates downwards to depths of six hundred metres, ultimately reaching gas-and-oil bearing formations.

On the right of the illustration are brief explanations of the many zones encountered at Primrose. A general overview of the Primrose Range (below) shows the initial AEC operations in the northwest corner of the range, with much territory yet to be explored.





At a depth of 300 metres, the drill encounters potentially natural gas-bearing sands in the geological zone known as the Upper Grand Rapids.

At a depth of 500 metres, the drill encounters further potential for natural gas in the geological zone known as the Clearwater.

At a depth of 550 metres, the drill encounters further potential for natural gas in the geological zone known as the McMurray.

Heavy oil sands underlie the gas-bearing formations at a depth of 600 metres, in the McMurray Formation.

The case-hardened steel of the rotary drill bit penetrates its way through soil and rock hundreds of metres into sub-surface formations in the quest for gas and oil.



operating seasons have been ahead of schedule, with many discoveries of both natural gas and heavy oil being encountered in the Ipiatik Lake block in the northwestern part of the Primrose Range.

As this report goes to press, Alberta Energy Company has just signed an agreement with an oil company which will conduct an exploration program in a 360-square-kilometre area in the southeastern portion of the Primrose Range. A seismic program has commenced and the oil company will drill 135 exploratory wells, to earn a 50 percent interest in the petroleum and natural gas rights.

If the exploratory program indicates the presence of potentially commercial heavy oil sands, AEC's partner will construct a \$20 million pilot plant. Then, if the technology is shown to be economically viable, the two companies jointly will proceed with construction of a commercial-scale plant.

The agreement also provides that AEC will receive a substantial cash payment or acquire an interest in certain of the partner's oil and gas lands.

Heavy Oil Challenge

Even more challenging will be the production of the very substantial amount of heavy oil which has been discovered in exploration programs at Primrose and Suffield. Due to its molasses-like nature, it does not flow readily from the ground,

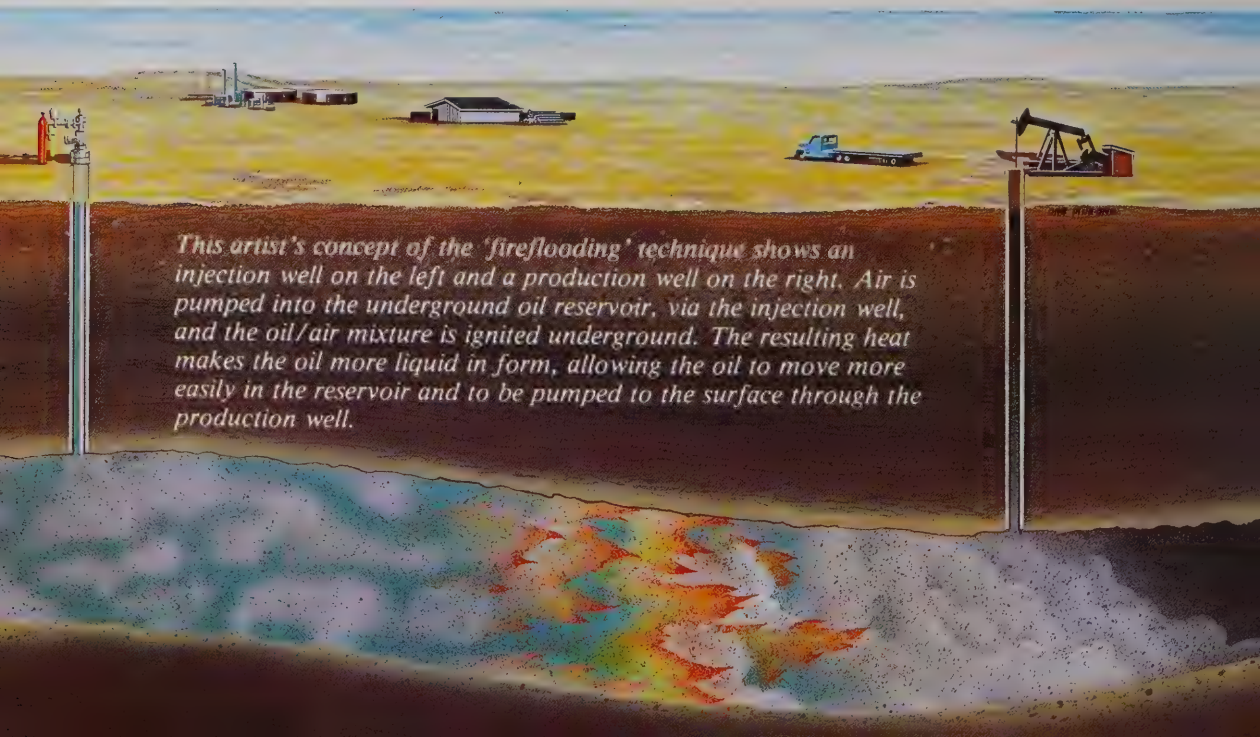
and therefore must be heated to make it more fluid so it can be pumped from the well. This heating process may involve fireflooding (see below), or injecting high-pressure steam into the ground to heat the oil.

The application of this process requires the development and field testing of technology which is at the very frontier of engineering work. Alberta Energy Company already has a field pilot fireflooding test underway at Suffield, and is in the design stage of a major pilot for Primrose. Although the development of this technology involves long lead times and high costs, the Company is confident that, in the longer term, economic structures will be in place to allow these important resources to contribute to the energy supplies needed by Canadians.

Syncrude

The Syncrude synthetic crude oil plant at Fort McMurray, Alberta represents a total investment of \$2.3 billion in the extraction of oil from the Athabasca oil sands in north-central Alberta. Alberta Energy Company owns 10 percent of this project, as well as having an average 7 percent overriding royalty interest in another 10 percent of the Syncrude production.

During 1980, oil production from the Syncrude Project increased to 4.7 million cubic metres (29.6 million barrels), bringing AEC's share of the production to 470 thousand cubic metres (3.0 million barrels) from the 1979 level of



This artist's concept of the 'fireflooding' technique shows an injection well on the left and a production well on the right. Air is pumped into the underground oil reservoir, via the injection well, and the oil/air mixture is ignited underground. The resulting heat makes the oil more liquid in form, allowing the oil to move more easily in the reservoir and to be pumped to the surface through the production well.

286 thousand cubic metres (1.8 million barrels).

The plant operated during the year at 74 per cent of its design capacity of 6.3 million cubic metres (39.8 million barrels) per year, despite a number of operational difficulties.

Production of oil from the oil sands is urgently required to replace Canada's rapidly depleting supply of conventionally produced oil. Although the cost is high, it is competitive with importing foreign oil and provides the advantage of reducing Canada's reliance on an insecure foreign supply, as well as creating employment opportunities for Canadians. The high cost of producing oil from oil sands is due to:

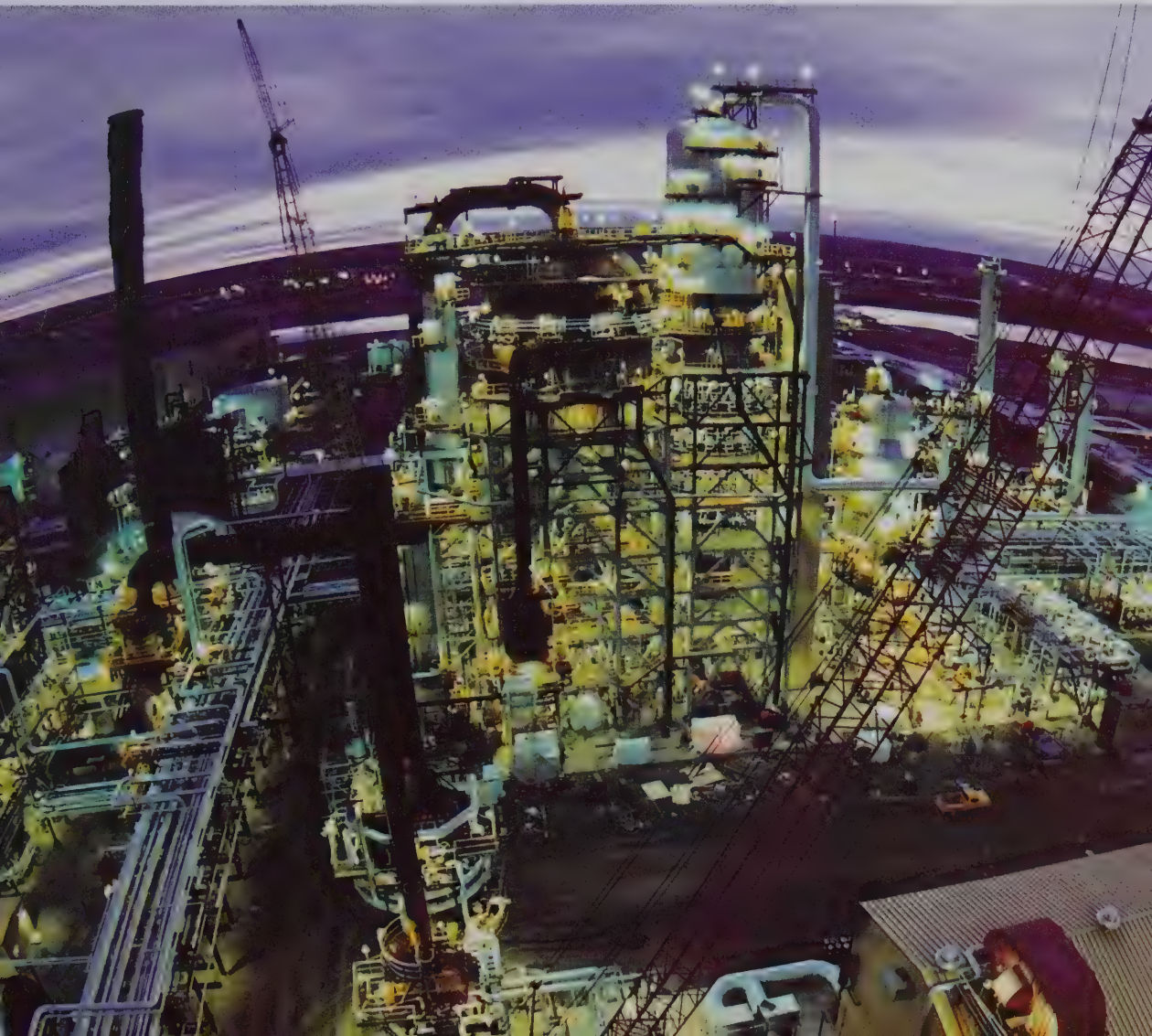
- the huge capital investment;
- the long construction period during which substantial funds are invested while no revenue is received;
- the massive quantities of materials that must be

moved to produce the oil (2.4 tonnes per barrel of Syncrude oil);

- the sticky nature of the oil which makes up-grading difficult; and
- the remote location and harsh climate.

In addition to its Syncrude ownership, Alberta Energy Company owns 66 2/3 percent of the \$262 million AEC Power Utilities Plant at the Syncrude Project. This plant was completed in 1978 and supplies electric power, processed water and steam requirements for the entire Syncrude operation.

The massive operations of the Syncrude Project at Fort McMurray provide a blaze of light against the darkening sky.



COAL

With the advent of dramatic increases in the world price of gas and oil, energy consumers have once again become increasingly interested in the prospects of coal as an additional energy source.

Alberta Energy Company has made a significant investment in a coal development project in the Coal Valley region of Alberta.

Coal Valley

Annual Plant Production Capacity: 2.3 million tonnes (2.5 million tons)

1980 Coal Production: 2.4 million tonnes (2.6 million tons)

Investment by AEC to Date: \$35.6 million

At year-end Coal Valley had successfully completed its second full year of operation. During 1980, an average of 6,560 tonnes (7,230 tons) of coal per day were produced for shipment to markets in Ontario, Japan and Europe.

The majority of the coal is transported via unit train to an eastern Canadian utility which has now been able to reduce its dependence on U.S. suppliers by this purchase of 1.6 million tonnes (1.8 million tons) per year. The remainder of the coal, which is attractive internationally because of its high energy content, is shipped to its final destination overseas.

Annual production has grown each year since 1978, bringing the plant to design capacity. A key consideration in a recent decision to expand this design capacity to 3.2 million tonnes (3.5 million tons) is the signing of contracts in 1980 with Japan for up to 1,000,000 tons per year; recent large increases in the international price of thermal coal make those new contracts particularly attractive.

An electrically-driven dragline, (right) taller than a 10-storey building, works on a coal seam at the Coal Valley project. The huge bucket of the dragline, dwarfs a pickup truck parked beside it.

Coal Valley trucks, with a capacity of up to 90 tonnes (100 tons), (above) have tires with a 25-metre diameter and are valued at over \$600,000. The trucks are loaded by the dragline and by large-scale backhoes capable of mining 10 tonnes (11 tons) of coal with each bucket load.







The pipeline worker at left displays metal fragments removed from the AOSPL pipeline by the steel bristled 'pig' on which he is leaning, as part of line maintenance.

Below, a maintenance worker carries out a routine pipeline inspection, while at bottom the AOSPL control panel monitors more than 600 individual functions at one time.



PIPELINES

Pipelines are an integral part of every gas and oil operation in the world. They are the transportation system for many of the raw and refined products which result from oil and gas exploration and development.

Alberta Oil Sands Pipeline

Length: 430 kilometres (270 miles)
Design Capacity: 25,981 cubic metres per day
(163,500 barrels)
1980 Throughput: 12,880 cubic metres per day
(81,052 barrels)
Investment by AEC to Date: \$80.7 million

The 25,981 cubic-metres-per-day (163,500 barrels-per-day) capacity of the Alberta Oil Sands Pipeline rates it as one of the largest Alberta pipelines, and its sophisticated remote-control operation make it one of the most modern systems in the country.

AOSPL was constructed during 1977 to deliver synthetic crude oil from the Syncrude Project near Fort McMurray to market in Edmonton. During 1980 the pipeline transported Syncrude's 50-millionth barrel of production.

From the control panel at the AOSPL centre in the Edmonton area, operators can monitor 600 separate functions on the line at any given moment. Through highly-sensitive devices, functions ranging from regulating line pressure to opening and closing valves to direct the oil through the line can be closely monitored.

This pipeline system will be expanded to service other future oil sands plants as required.

Ethane Gathering System

Length: 885 kilometres (550 miles)
Design Capacity: 13,825 cubic metres per day
(87,000 barrels)
1980 Throughput: 4.4 million cubic metres
(27.5 million barrels)
Investment by AEC to Date: \$19.2 million

A complex network of pipelines criss-cross beneath the surface soil of Alberta. One of these pipelines is an 885-kilometre Ethane Gathering System in which AEC has a one-third interest.

Constructed during 1978, this system during 1980 carried an average of 11,973 cubic metres (75,348 barrels) of ethane per day from gas plants at Cochrane, Waterton, Empress and Edmonton to a petrochemical processing plant at Joffre, Alberta, with the balance transported to underground storage at Fort Saskatchewan for shipment out of the province.

Ethane, a natural gas byproduct, is in large demand worldwide by the petrochemical industry.

Carbon Dioxide Pipeline

Length: 563 kilometres (350 miles)
Design Capacity: 2.8 million cubic
metres per day
(100 million cubic feet)
Estimated Cost: \$110 million

This project, in which AEC will have a 50 per cent interest, has been suspended awaiting the approval of the Judy Creek enhanced recovery scheme.

Once in operation the pipeline will transport carbon dioxide from the Fort McMurray oil sands operations and the Redwater fertilizer plant to Judy Creek for injection into the reservoir.

Cold Lake Bitumen Pipeline

Length: 235 kilometres (145 miles)
Design Capacity: 2,862 cubic metres per day
(18,000 barrels)
Estimated Cost: \$65 million

During 1980, AEC applied for a permit to build a combination bitumen and diluent pipeline from Edmonton to Cold Lake. This system will transport diluent to Cold Lake where it will be blended with bitumen and then transported back to Edmonton for use in a refinery. The pipeline's capacity can be increased to approximately 7,150 cubic metres per day (45,000 barrels per day) to accommodate future shippers from the Cold Lake area.

If approved by the Energy Resources Conservation Board, it is anticipated construction of the line would begin in 1981, with start-up in early 1982.



OTHER ACTIVITIES

Forestry

In 1976 Alberta Energy Company invested as a 40% joint venture partner in the timber resources of the Whitecourt Forest Management Area and in the associated modern lumber manufacturing plant near Blue Ridge. The initial capacity for this facility was 100 million board feet per year of random length lumber, produced by processing smaller logs typical of the Alberta forests.

The demand for lumber in Canada and the United States decreased in 1980 because of lower housing starts reflecting the higher interest and mortgage rates. This lower demand resulted in significant reduction in lumber prices. These lower prices are expected to improve slightly in 1981. Because of the lower prices, a number of cost reduction and productivity improvement programs were implemented at the Blue Ridge mill during 1980. As a result, these operations will be in a position to benefit from higher lumber prices in the future.

In January 1981 a decision was made to proceed with an "end-gluing" facility at the Blue Ridge plant whereby the shorter pieces of lumber are glued end-to-end to make longer lengths. The total cost of the equipment and related facilities is \$1.5 million. End-glued lumber is extensively used in the manufacture of pre-built homes and mobile homes because of its strength and straightness characteristics.

AEC has a continued interest in investment in future forestry developments in Alberta and Western Canada and considers its joint ownership in 1.4 million acres of forestry rights in Alberta as a base position in this industry.

Petrochemicals

Petrochemicals Alberta Project (Petalta)

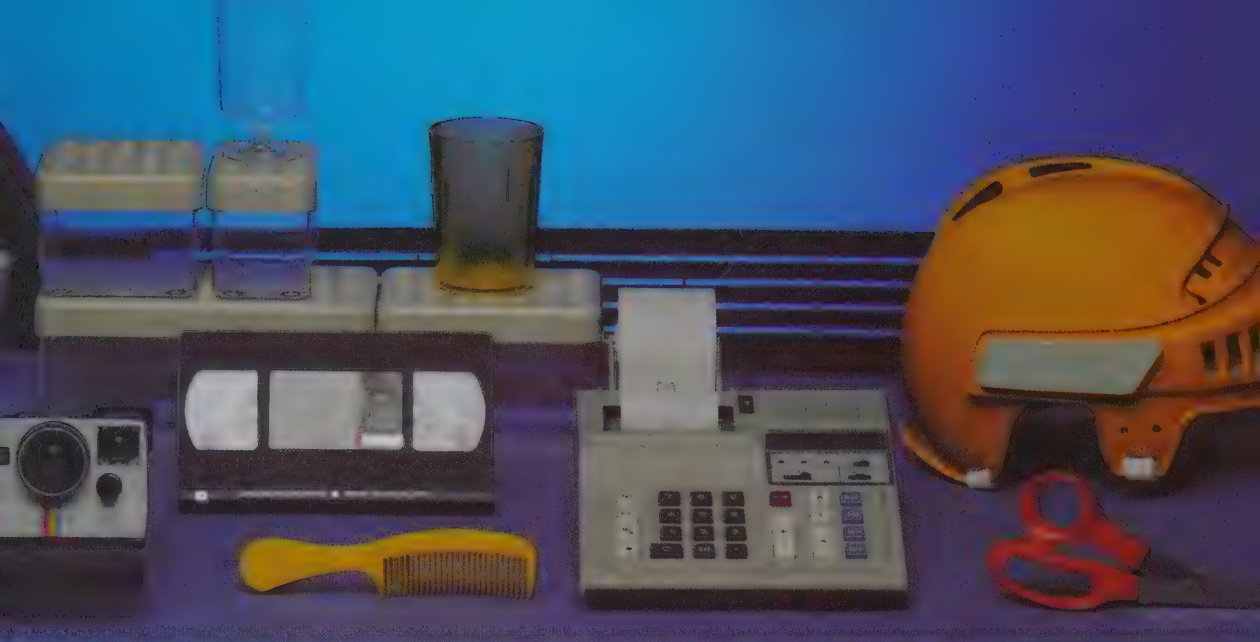
AEC has an industrial development permit to construct a major \$350 million benzene plant. Design work is well under way, with site preparation activities scheduled to commence in 1981.

The benzene plant will have an output of 416 million litres (110 million gallons) of benzene per year for use in the manufacture of synthetic resins, paints, varnishes, adhesives and other products.

During 1980 AEC and its joint venture participant applied to the ERCB for approval to construct a world-scale ethylbenzene/styrene plant. This plant will cost \$300 million to construct and will have a capacity of 400 kilotonnes (882 million pounds) of ethylbenzene/styrene per year.

Polyethylene

Early in 1981, AEC filed a joint application with a partner for construction of a linear low-density polyethylene plant in the Edmonton area.



Millions of board feet of lumber await their trip through the large saws of the Whitecourt lumber manufacturing plant (left). At right, rubber tires are just one of thousands of products manufactured by petrochemical derivatives of the Alberta gas and oil industry.

The plant, with a proposed capacity of 227 thousand kilograms (500 million pounds) per year, would cost approximately \$200 million to construct.

Pan-Alberta Gas Ltd.

Pan-Alberta Gas Ltd., in which AEC owns a 50% interest, contracts for the purchase of natural gas throughout Alberta and for the sale of gas to purchasers primarily outside Alberta.

During 1980, as a result of soft markets in the United States, sales of 1.8 billion cubic metres (63.8 billion cubic feet) were slightly less than experienced during 1979.

Pan-Alberta's major sales project to export natural gas from Canada to the United States received sufficient regulatory approvals during the year to enable the project to proceed. First deliveries are expected to commence in the spring of 1981. Additional gas markets being pursued by Pan-Alberta include providing part of the supply required for the proposed pipeline extension to serve domestic markets in Quebec and the Maritimes.

Zimpro-AEC

In 1978, AEC and Zimpro undertook a joint investigation of the economic and technical feasibility of applying the Wet Air Oxidation (WAO) process as a recovery method for heavy oil and

bitumen, and for the treatment of tailings from oil sands extraction. (Zimpro Inc., a Wisconsin based subsidiary of Sterling Drug Inc., is an engineering, research, and construction company engaged in solving environmental and energy problems for municipalities and industries on a turnkey basis.)

As a result of the success of this joint investigation, Zimpro-AEC Ltd. was formed and in late 1980 commenced the marketing of the Wet Air Oxidation boiler. The response from potential customers in Canada and the United States has been encouraging.

The Wet Air Oxidation boiler operates on inexpensive fuels, generating a mixture of carbon dioxide, nitrogen and steam. By injecting this gas-enhanced steam into the reservoir, substantially more oil can be recovered than with steam alone. Because the system is fully enclosed, it does not create air pollution problems and can therefore be used in jurisdictions where stringent air quality standards prevent the use of conventional steam generators.

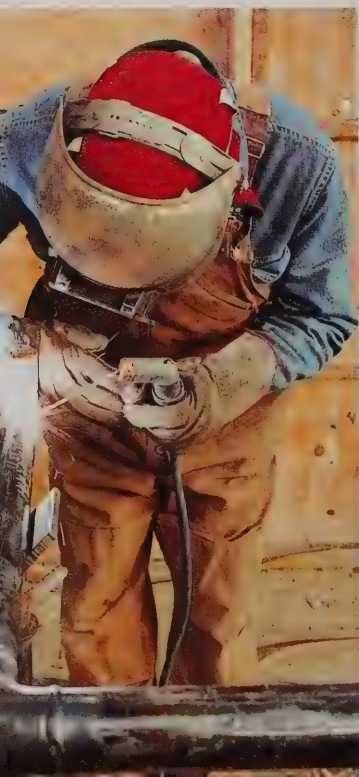
Steel Alberta Ltd.

Steel Alberta, 50% owned by AEC, holds 20.2% of the shares of Interprovincial Steel and Pipe Corporation Ltd. For the fiscal year ending August 31, 1980, IPSCO had a net income of \$22.6 million on sales of \$250.6 million, both record highs for the company.



The People of Alberta Energy







Alberta Energy Company Ltd.

DIVIDEND NOTICE TO SHAREHOLDERS

The Board of Directors of Alberta Energy Company Ltd. has declared a dividend of fifteen cents (15c) per share on the Company's common shares, payable on June 11, 1980, to shareholders of record at the close of business on May 21, 1980.

If you have moved since purchasing shares of Alberta Energy Company Ltd. and have not previously forwarded a change of address, please notify in writing: National Trust Company Limited, 150 Toronto Dominion Square, Calgary, Alberta T2P 2T9.

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Financial Review

Earnings

Net earnings were \$57.4 million or \$1.26 per share, compared with net earnings of \$27.4 million or \$0.60 per share for 1979.

Cash flow was \$116.4 million or \$2.56 per share compared with cash flow of \$60.8 million or \$1.34 per share for 1979.

Revenues

Revenues, net of Alberta Crown Royalties, were \$237.4 million, up considerably over the 1979 level of \$96.9 million. This significant improvement is in large part a result of the 1979 investment in Syncrude. Syncrude revenues, which have been recorded from March 1, 1980, increased gas sales and higher gas prices account for the major portion of the increase. Revenues from pipelines and coal also contributed to this growth, while forestry operations experienced the effects of a weak demand and lower market prices. Total Alberta Crown Royalties for the year were \$43.5 million of which \$30.9 million pertained to conventional gas and oil, \$12.2 million to the Syncrude Project and \$0.4 million to coal.

One of the Company's gas purchasers was unable to take a portion of the minimum quantity stipulated under their gas contract. Accordingly, the purchaser paid the Company \$9.0 million for the shortfall and this amount has been reflected in deferred revenue.

Costs and Expenses

Operating expenses were \$99.7 million compared to \$27.4 million for 1979. This increase related mainly to inclusion of the Syncrude Project operating expenses from March 1, 1980, totalling \$60.0 million. The operating expenses of the other areas of the Company have increased as a result of a greater level of activity combined with the overall effects of inflation.

Net interest expense was \$17.4 million, up from \$2.8 million for 1979. This increase is primarily due to fewer funds being available for investment during 1980 resulting in lower interest income. Also, the Company stopped capitalizing in-

terest expense related to the cash invested in the Syncrude Project as of March 1, 1980.

General and administrative expenses were \$8.3 million compared to \$5.2 million for 1979. The increased level of activity of the Company resulted in higher staffing levels together with increases in other administrative expenses. Additionally, the Company has changed its accounting policy whereby certain project investigation costs are no longer deferred but expensed as incurred.

A significant portion of the charge for depreciation, depletion and amortization is a function of production levels. The charge to earnings of \$23.4 million represents an increase over the \$15.6 million for 1979. This increase is a direct result of reporting Syncrude production as of March 1, 1980, combined with higher gas production.

Capital Expenditures

Investment in property, plant and equipment of \$87.5 million represents a decrease from the 1979 level of \$255.2 million which included \$212.6 million as an investment in the Syncrude Project. The major investment during 1980 saw \$58.9 million for the continued development of the Suffield Block.

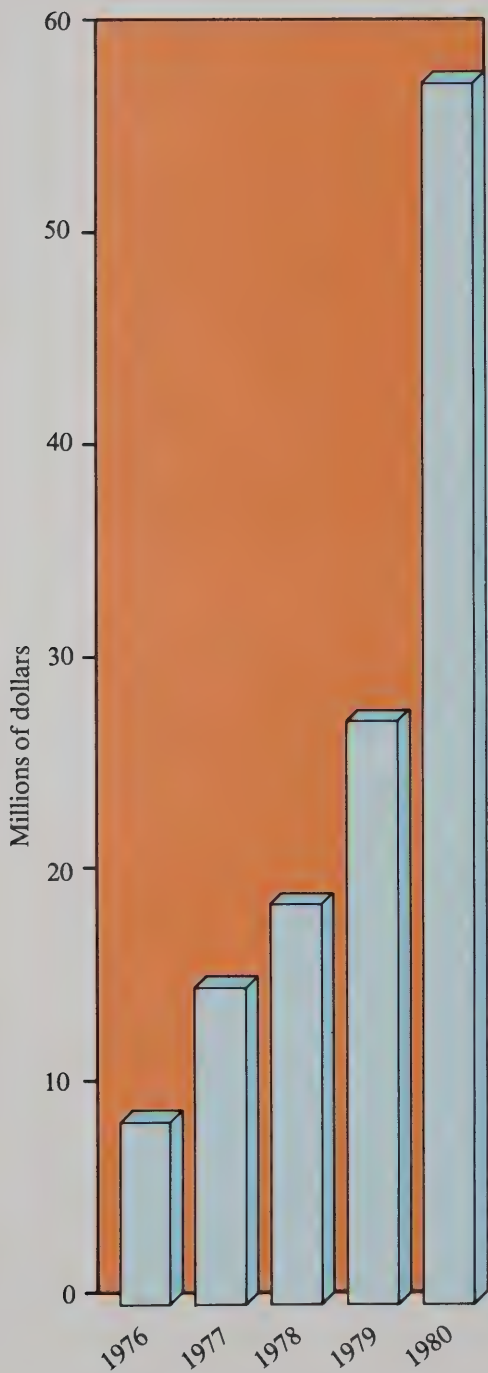
Financing

Working capital as at December 31, 1980 was \$10.6 million compared to \$44.3 million at the end of 1979. This decrease is primarily attributable to the reduction in long-term debt. With the availability of the existing revolving credit facility, the Company has ready access to additional working capital as required.

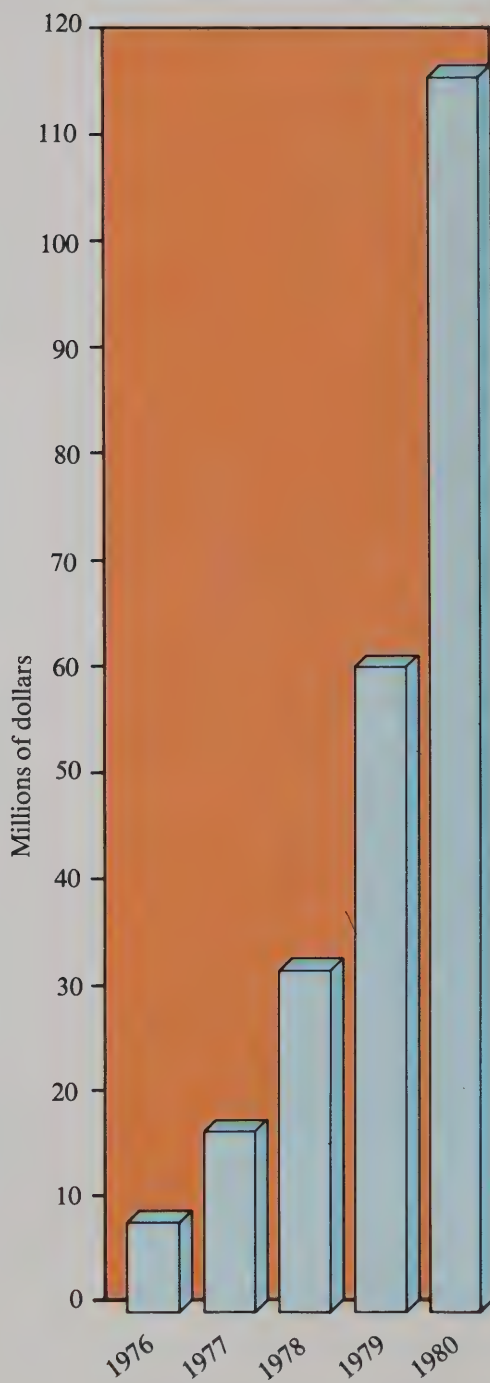
Subsequent to year end, the Company has arranged for a further revolving line of credit in the amount of \$50 million. Any loans drawn down under this facility will be repayable over a ten-year period commencing 1991.

Subsequent to the three-for-one stock split of April 1980, the Company paid a dividend of \$0.15 per share, an increase of 50% over that paid in the previous year.

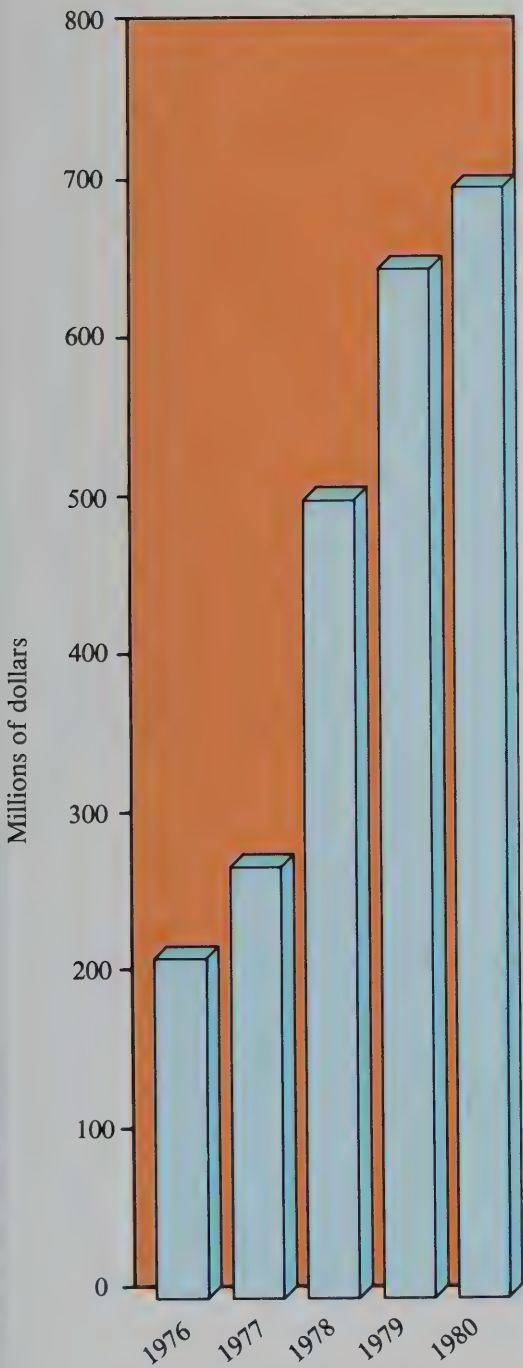
Net Earnings



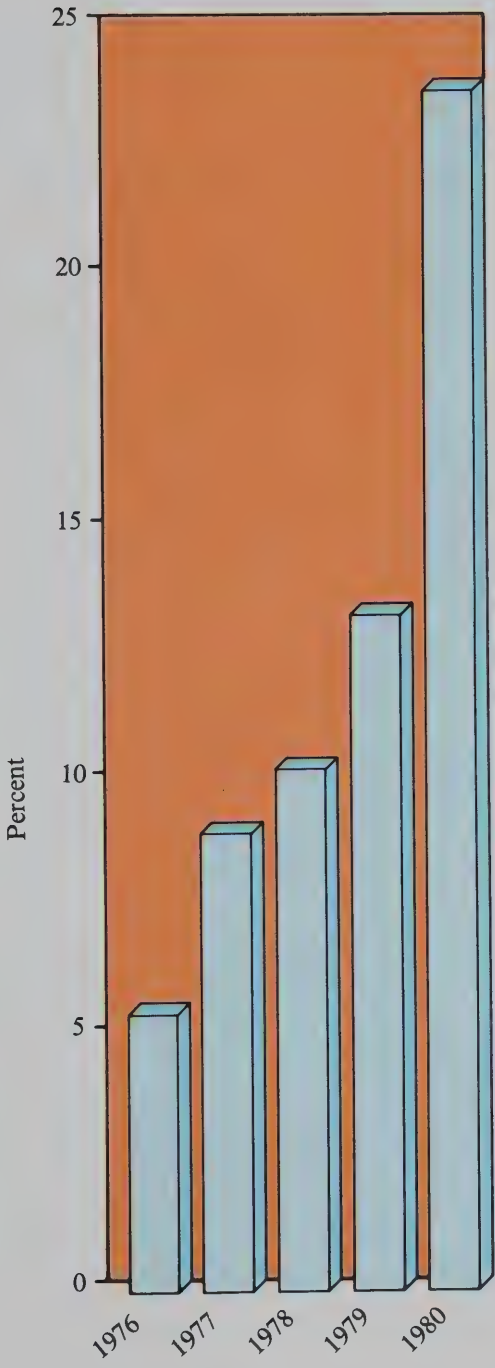
Cash Flow



Total Assets



Return on Shareholders' Equity



Alberta Energy Company Ltd.
Consolidated Balance Sheet
(\$000's)

	December 31	
	1980	1979
ASSETS		
CURRENT ASSETS		
Cash and short-term investments at cost which approximates market	\$ 19,426	\$ 39,526
Accounts receivable and accrued revenue	28,423	23,159
Inventories (Note 2)	10,547	9,715
Prepaid expenses	3,676	1,069
	<u>62,072</u>	<u>73,469</u>
INVESTMENT IN AFFILIATED COMPANIES (Note 3)	37,010	35,079
PROPERTY, PLANT AND EQUIPMENT (Note 4)	593,892	531,893
OTHER ASSETS AND DEFERRED CHARGES (Note 5)	9,726	10,578
	<u><u>\$ 702,700</u></u>	<u><u>\$ 651,019</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 49,824	\$ 27,799
Current portion of long-term debt (Note 6)	1,660	1,418
	<u>51,484</u>	<u>29,217</u>
DEFERRED REVENUE	15,281	6,481
LONG-TERM DEBT (Note 6)	251,773	309,599
DEFERRED LIABILITIES (Note 7)	45,911	50,442
DEFERRED INCOME TAXES (Note 8)	69,830	37,740
	<u><u>434,279</u></u>	<u><u>433,479</u></u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 9)		
Authorized - 300,000,000 shares without par value		
Issued and fully paid - 45,460,505 (1979-45,446,505)	149,064	148,811
Retained earnings	119,357	68,729
	<u>268,421</u>	<u>217,540</u>
	<u><u>\$ 702,700</u></u>	<u><u>\$ 651,019</u></u>

Approved by the Board :

Scud Mitchell Director

R. E. Lomas Director

Alberta Energy Company Ltd.
Consolidated Statement of Earnings
(\$000's)

	Year Ended December 31	
	1980	1979
REVENUES, NET OF ROYALTIES		
Gas and oil	\$ 80,560	\$ 48,811
Pipelines	22,724	19,911
Oil sands	104,228	—
Forestry	8,779	9,881
Coal	15,167	11,465
Other	1,140	858
Equity in earnings of affiliated companies	4,804	6,006
	<u>237,402</u>	<u>96,932</u>
COSTS AND EXPENSES		
Operating	99,701	27,383
Interest - net (Note 10)	17,428	2,840
General and administrative	8,339	5,227
Depreciation, depletion and amortization	23,399	15,621
	<u>148,867</u>	<u>51,071</u>
EARNINGS BEFORE PROVISION FOR INCOME TAXES	<u>88,535</u>	<u>45,861</u>
PROVISION FOR INCOME TAXES (Note 8)	<u>31,090</u>	<u>18,439</u>
NET EARNINGS	<u>\$ 57,445</u>	<u>\$ 27,422</u>
EARNINGS PER SHARE , based on 45.5 million shares	<u>\$ 1.26</u>	<u>\$ 0.60</u>

Consolidated Statement of Retained Earnings
(\$000's)

BALANCE — BEGINNING OF YEAR	\$ 68,729	\$ 45,842
NET EARNINGS	57,445	27,422
	<u>126,174</u>	<u>73,264</u>
DIVIDEND	6,817	4,535
BALANCE — END OF YEAR	<u>\$ 119,357</u>	<u>\$ 68,729</u>

Alberta Energy Company Ltd.
Consolidated Statement of Changes
in Financial Position
(\$000's)

	Year Ended December 31	
	1980	1979
SOURCE OF FUNDS		
Earnings before provision for income taxes	\$ 88,535	\$ 45,861
Alberta royalty tax credit	1,000	1,000
Items not affecting working capital*	23,515	9,297
Dividend - AEC Power Ltd.	3,333	4,662
Cash flow	116,383	60,820
Deferred revenue	9,021	3,481
Issue of share capital	253	1,142
Issue of long-term debt	14,955	104,985
Advances to affiliated companies - net	—	(653)
	<u>140,612</u>	<u>169,775</u>
USE OF FUNDS		
Investment in property, plant and equipment		
Gas and oil	58,858	31,426
Pipelines	1,448	3,560
Oil sands	16,617	212,610
Forestry	984	1,954
Coal	5,635	3,483
Other	4,005	2,194
	<u>87,547</u>	<u>255,227</u>
Current portion of long-term debt and deferred liabilities	6,191	1,418
Repayment of long-term debt	71,121	3,184
Other assets and deferred charges	2,601	2,192
Dividend	6,817	4,535
	<u>174,277</u>	<u>266,556</u>
DECREASE IN WORKING CAPITAL	(33,665)	(96,781)
WORKING CAPITAL — BEGINNING OF YEAR	44,252	141,033
WORKING CAPITAL — END OF YEAR	<u>\$ 10,587</u>	<u>\$ 44,252</u>

*Principally depletion, depreciation and equity earnings.

Notes to Consolidated Financial Statements
December 31, 1980

1. Summary of accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Alberta Energy Company Ltd. (the Company) and its wholly-owned subsidiary companies.

Investments in unincorporated joint ventures are accounted for by the proportionate consolidation method wherein the proportionate share of

each of the assets, liabilities, revenues and expenses associated with a joint venture is combined with similar categories within the Company's accounts.

A listing of subsidiaries and unincorporated joint ventures is shown on page 41.

(b) Investments in affiliated companies

Where the Company owns 50% or less of the voting shares of another corporation and is in a position of exerting significant influence in the decisions made by such investees, the equity method of accounting for such investments has been adopted. Under this method the Company's proportionate share of the affiliates' earnings is included in income and the investment is carried at cost plus equity in undistributed earnings since acquisition. Details are shown in Note 3.

(c) Property, plant and equipment

Gas and oil

The Company follows the full cost method of accounting for gas and oil properties whereby all costs related thereto are capitalized. All petroleum and natural gas leases are situated in the Suffield Block and Primrose Range with the associated costs accumulated in one cost centre and amortized on a composite unit-of-production method based upon estimated proven developed reserves. This policy represents a change from previous years but the resulting effect on earnings is not material.

Pipelines

Property, plant and equipment is carried at cost with depreciation calculated using the straight-line method based on the estimated service life of the asset.

Oil sands

Property, plant and equipment, including pre-production costs, associated with the Syncrude Project are accumulated in a separate cost centre and amortized using the unit-of-production method based on estimated recoverable reserves. Anticipated major maintenance expenditures of an ongoing nature are provided for on the unit-of-production basis.

Forestry

Property, plant and equipment is carried at cost with depreciation calculated using the straight-line method based on the estimated service life of the asset. The cost of acquiring timber harvesting rights and constructing main haul roads are capitalized and amortized using the unit-of-production method based on estimated recoverable timber.

Coal

The major portion of plant and equipment is depreciated on the unit-of-production method based on contracted sales. Preproduction costs and costs of stripping related to producing areas of the mine are amortized over 5 years on the basis of estimated production. Other assets, primarily mining vehicles, are depreciated over their expected useful lives.

Other

Depreciation of other plant and equipment is provided for using the straight-line method based on the estimated service life of the asset.

(d) Other assets and deferred charges

Mineral exploration and development

Acquisition costs of undeveloped mineral resource properties are capitalized and amortized over the exploration period or until sufficient reserves are established, at which time the unamortized costs will be charged against earnings using the unit-of-production method.

Mineral exploration expenditures are charged to earnings as incurred until such time as the presence of economically recoverable reserves are established. Subsequent expenditures are capitalized on a project basis and amortized using the unit-of-production method once commercial production commences.

Project investigation costs

All project investigation costs on new business opportunities are charged to earnings as incurred until such time as the commercial viability of the project or business is indicated. All subsequent expenditures will be capitalized and charged against earnings using the method deemed appropriate for that particular business or project. This policy represents a change from previous years but the resulting effect on earnings is not material.

Research and development

Tangible research and development costs are capitalized and charged against earnings using the straight-line method at rates which are estimated to amortize the net costs of the assets over their useful lives, while intangible research and development costs are charged against earnings as incurred.

Financing costs

Financing costs are amortized over the life of the related debt.

2. Inventories

Inventories are valued at the lower of cost or estimated net realizable value. They consist of:

(\$000's)	1980	1979
Raw materials	\$ 6,708	\$ 6,323
Work-in-process	1,171	1,212
Finished goods	2,668	2,180
	<u>\$ 10,547</u>	<u>\$ 9,715</u>

3. Investments in affiliated companies, at equity

(\$000's)	AEC Power Ltd.	Steel Alberta Ltd.	Pan-Alberta Gas Ltd.	1980 Total	1979 Total
Common shares	\$ 16,032	\$ 10	\$ 1,000	\$ 17,042	\$ 17,042
Advances — unsecured	—	5,659	—	5,659	5,659
Equity in undistributed earnings since acquisition	4,717	7,140	2,452	14,309	12,378
	<u>\$ 20,749</u>	<u>\$ 12,809</u>	<u>\$ 3,452</u>	<u>\$ 37,010</u>	<u>\$ 35,079</u>

(a) AEC Power Ltd. (66 2/3% equity interest; 50% voting interest)

Steel and Pipe Corporation Ltd. and accounts for this investment on the equity method.

(b) Steel Alberta Ltd. (50% equity interest; 50% voting interest)

(c) Pan-Alberta Gas Ltd. (50% equity interest; 40% voting interest)

Steel Alberta Ltd. owns 20.2% of Interprovincial

4. Property, plant and equipment

(\$000's)	1980		1979	
	Cost	Accumulated depreciation, depletion and amortization	Net	Net
Gas and oil	\$ 258,226	\$ 25,865	\$ 232,361	\$ 183,521
Pipelines	99,929	9,655	90,274	92,559
Oil sands*	227,933	5,765	222,168	212,499
Forestry	14,537	3,539	10,998	11,286
Coal	35,646	3,982	31,664	28,596
Other	7,401	974	6,427	3,432
	<u>\$ 643,672</u>	<u>\$ 49,780</u>	<u>\$ 593,892</u>	<u>\$ 531,893</u>

*Oil sands: Prior to March 1, 1980 the Company's share of Syncrude operating costs, net of revenues, plus interest on cash invested was capitalized.

5. Other assets and deferred charges

(\$000's)	1980	1979
Deposits	\$ 534	\$ 853
Land held for future development	644	619
Loans under Share Purchase Plans	1,970	2,127
Project investigation costs	3,499	4,230
Mineral properties	1,842	1,370
Unamortized financing costs	1,237	1,379
	<u>\$ 9,726</u>	<u>\$ 10,578</u>

6. Long-term debt

(\$000's)	1980	1979
AEC		
Income debentures and term loans	\$ 189,000	\$ 250,000
Notes payable	4,846	
	<u>193,846</u>	<u>250,000</u>
AOSPL		
First Mortgage Sinking Fund Bonds:		
Series A - 9 $\frac{1}{8}$ %, due June 15, 1997	24,842	25,938
Series B - 9 $\frac{3}{4}$ %, due June 15, 1997	28,664	30,082
	<u>53,506</u>	<u>56,020</u>
Other	6,081	4,997
	<u>253,433</u>	<u>311,017</u>
Current portion of long-term debt	1,660	1,418
	<u>\$ 251,773</u>	<u>\$ 309,599</u>

a) Income debentures and term loans

The Company has available a revolving credit facility with two chartered banks providing for up to \$300 million to be drawn in the form of income debentures or term loans. Income debentures totalling \$180 million and term loans of \$9 million were outstanding as at December 31, 1980.

The total outstanding income debentures and term loans are secured by a portion of the reserves of the Suffield Block, a fixed charge on the related production equipment and an assignment of the related gas sales contracts. The debt is repayable in full over a period of ten years commencing not later than December 31, 1988. The interest rate on income debentures is approximately one-half of the sum of the lenders' prime commercial lending rate and a factor which varies over the term of the debentures from $\frac{3}{8}$ % to 1 $\frac{3}{8}$ %. The interest rate on term loans is the lenders' prime commercial lending rate plus a factor varying over the term of the loans of up to 1%. Interest paid on income debentures is not deductible for income tax purposes.

b) Notes payable

Notes payable of \$4.8 million with interest at 12.87% are represented by Bankers' Acceptances due February 3, 1981 and are shown as long-term debt. This amount is supported by the availability of term loans under the revolving credit facility.

c) AOSPL First Mortgage Sinking Fund Bonds

The Series A and B Bonds are secured by a fixed charge upon AOSPL's fixed assets and a floating charge on all its other assets. Outstanding debt related to the AOSPL pipeline is guaranteed by the Syncrude participants in the event of abandonment of the Syncrude Project. As a participant in the Syncrude Project, the Company is responsible for 10% of the guarantee. Fixed sinking fund payments are required at a rate sufficient to retire in each year 4 $\frac{1}{2}$ % (being \$2.8 million annually) of the total bond issue of \$61.5 million. To date AOSPL has made early purchases of bonds totalling \$1.1 million which will be applied against 1981 sinking fund requirements.

7. Deferred liabilities

(a) Suffield

Rights to the Suffield Block were acquired for \$54 million of which \$24 million has been paid and the balance is payable in three annual installments of \$10 million commencing one year after recovery of certain expenditures.

(b) Primrose

The Company acquired rights to the Primrose Range for \$57.6 million which includes \$32 million

in work obligations. The Company has paid \$5.2 million for leases, \$4.5 million has been included in current liabilities to cover payment for additional leases and \$15.9 million is payable when leases to the remaining portions of the Range are requested. Work on that part of the Range currently leased is being conducted by other parties under farmout arrangements.

8. Income taxes

(\$000's)	1980	1979
Deferred	\$ 32,090	\$ 19,439
Alberta Royalty Tax Credit	(1,000)	(1,000)
	<u>\$ 31,090</u>	<u>\$ 18,439</u>

The Company makes full provision for deferred income taxes which result from the claiming of certain deductions for income tax purposes

in excess of related amounts charged in the financial statements.

9. Share capital

(a) During the year, each common share of the Company was subdivided into three shares. This increased the authorized number of common shares to 300 million and the issued and outstand-

ing to 45.5 million. All references to numbers of shares and per share calculations reflect this stock split.

(\$000's)	1980		1979	
	Number of Shares	Net Proceeds	Number of Shares	Net Proceeds
Issued for cash	14,000	\$ 253	124,500	\$ 1,212
Redeemed for cancellation	—	—	13,548	70
Net increase in the year	14,000	253	110,952	1,142
Share capital-beginning of year	<u>45,446,505</u>	<u>148,811</u>	<u>45,335,553</u>	<u>147,669</u>
Share capital-end of year	<u>45,460,505</u>	<u>\$ 149,064</u>	<u>45,446,505</u>	<u>\$ 148,811</u>

(b) At December 31, 1980, 137,608 shares (1979-151,608) are reserved for issuance under the Share Purchase Plan.

(c) Pursuant to The Alberta Energy Company Act only citizens or residents of Canada are eligible to purchase, own or hold shares in the Com-

pany. In addition, the maximum ownership of any one shareholder, excluding the Province of Alberta, is limited to 1% of the total number of issued and outstanding shares of the Company.

10. Supplementary information to statement of earnings

(a) Income from operations and depletion, depreciation and amortization

(\$000's)	Income from Operations*		Depletion, Depreciation and Amortization	
	1980	1979	1980	1979
Gas and oil	\$ 62,399	\$ 34,870	\$ 10,215	\$ 7,824
Pipelines	14,619	13,556	3,726	3,560
Oil sands	38,482	—	5,765	—
Forestry	(1,101)	684	979	991
Coal	1,805	1,780	2,039	1,516
Other	(762)	(2,676)	9	1,438

* Income from operations represents revenues, net of royalties, less operating expenses and depletion, depreciation and amortization.

(b) Interest - net

This includes interest on long-term debt of \$23.9 million (1979 - \$22.1 million) of which \$2.6 million (1979 - \$7.2 million) representing interest

incurred during construction has been capitalized as property, plant and equipment.

(c) Joint ventures

The Company is a participant in certain joint ventures as outlined on page 41. Joint ventures are accounted for by the proportionate consolida-

tion method and accordingly the Company has included in its accounts the following aggregate amounts in respect of such investments.

(\$000's)	1980	1979
Assets	\$ 302,759	\$ 289,445
Liabilities	32,490	24,298
Gross operating revenue	148,970	26,841
Expenses	106,264	21,667

11. Remuneration of directors and senior officers

The aggregate direct remuneration paid by the Company and its subsidiaries to its directors as directors was \$124,000 (1979 - \$98,800) and to its

senior officers as officers was \$773,000 (1979 - \$646,000).

12. Contingent liabilities

The Company is one of four defendants in a legal action claiming general and special damages totalling \$7.7 million, arising from the awarding of contracts for the construction of two pipelines to serve the Syncrude Project.

According to counsel no estimates of the outcome or the liabilities, if any, can be given and accordingly no provision has been made in the financial statements for the liabilities, if any, of the Company in connection with this action.

Auditors' Report

To the Shareholders of
Alberta Energy Company Ltd.

We have examined the consolidated balance sheet of Alberta Energy Company Ltd. as at December 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Alberta Energy Company Ltd., its subsidiaries and the affiliate of which we are auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of other auditors who have examined the financial statements of the other affiliates and the joint ventures.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the changes as referred to in Note 1, have been applied on a basis consistent with that of the preceding year.

Pricewaterhouse & Co.

Chartered Accountants
Edmonton, Alberta
January 30, 1981

Five-Year Review

(all dollar amounts, except per share amounts, are in millions)

	1980	1979	1978	1977	1976
FINANCIAL					
Revenue (net of royalties)	\$ 237.4	\$ 96.9	\$ 58.9	\$ 25.1	\$ 4.1
Net earnings	57.4	27.4	18.8	14.9	8.5
Cash flow	116.4	60.8	32.5	17.1	8.2
Working capital	10.6	44.3	141.0	15.5	68.4
Investment in property, plant and equipment	593.9	531.9	290.8	206.6	99.3
Long-term debt	251.8	309.6	209.2	44.6	—
Total assets	702.7	651.0	504.1	273.3	216.4
PER SHARE DATA*					
Net earnings	\$ 1.26	\$ 0.60	\$ 0.41	\$ 0.33	\$ 0.19
Cash flow	2.56	1.34	0.72	0.38	0.18
Shareholders' equity	5.90	4.80	4.27	3.85	3.52
Dividend	0.15	0.10	—	—	—
SHARE DATA*					
Number of shareholders	54,252	51,725	53,292	54,169	56,394
Common shares outstanding . .	45,460,505	45,446,505	45,335,553	45,272,928	45,206,928
Volume of shares traded	9,706,332	8,530,752	5,543,070	5,386,023	7,668,018
Share price range - High	\$ 24.38	\$ 14.42	\$ 6.58	\$ 6.42	\$ 4.08
- Low	12.50	6.21	4.88	3.92	2.83
- Close	23.88	13.50	6.29	5.88	4.00
GAS AND OIL					
Successful wells drilled	485	307	397	301	216
Petroleum and natural gas leases, thousands of					
- hectares	764.7	764.7	764.7	248.7	248.7
- acres	1,889.8	1,889.8	1,889.8	614.6	614.6
Revenue from gas and oil	\$ 80.6	\$ 48.8	\$ 28.2	\$ 15.0	\$ 0.6
(net of royalties)					
Gas and oil royalties paid	\$ 30.9	\$ 18.3	\$ 13.6	\$ 7.6	\$ 0.3

*Reflects the three-for-one stock split

BOARD OF DIRECTORS

MATHEW M. BALDWIN
Company Director
Edmonton, Alberta

EDWARD A. GALVIN
President
Poco Petroleum Ltd.
Calgary, Alberta

M. EARL LOMAS, Q.C.
Partner, Macleod Dixon
Barristers and Solicitors
Calgary, Alberta

PETER L.P. MACDONNELL, Q.C.
Partner, Milner & Steer
Barristers and Solicitors
Edmonton, Alberta

JOHN E. MAYBIN
Chairman of the Board
Canadian Utilities Limited
Edmonton, Alberta

STANLEY A. MILNER
President
Chieftain Development Co. Ltd.
Edmonton, Alberta

RAYMOND J. NELSON
President
Nelson Lumber Company Ltd.
Lloydminster, Alberta

GORDON H. SISSONS
President
I-XL Industries Ltd.
Medicine Hat, Alberta

J. HARRY TIMS
President & General Manager
McTavish McKay & Co. Limited
Calgary, Alberta

DAVID E. MITCHELL
President & Chief Executive Officer

OFFICERS AND SENIOR PERSONNEL

NICHOLAS J. LASHUK
Executive Vice-President

FLOYD D. AARING
Vice-President

WAYNE G. HOLT
General Counsel

KEITH O. FOWLER
Director, Corporate Taxation

JACK G. ARMSTRONG
Senior Vice-President, Finance

ROGER D. DUNN
Vice-President, AEC Coal

ARLENE J. MOORE
Corporate Secretary

HECTOR J. McFADYEN
Director, Economics

KENNETH R. KING
Senior Vice-President

GWYN MORGAN
Vice-President, Gas and Oil

SYDNEY R. CHEN-SEE
Assistant Corporate Secretary

DEREK S. BWINT
Director, Financial Evaluations

FRANK W. PROTO
Vice-President

EDWARD J. MARTIN
Comptroller

JOHN D. WATSON
Treasurer

ROGER N. GIMBY
Director, Gas and Oil

STEVE E. BALOG
Manager, Reservoir Engineering

JOHN F. BOESSENKOOL
Manager, Accounting

LAURIER E. BOURASSA
Manager, Administration

JACK E. ELLEFSON
Manager, Alberta Oil Sands Pipeline

RAYMOND J. GESSLER
Manager, Computer Services

BARRY D. GILCHRIST
Manager, Legal Services

THOMAS R. KENNEDY
Manager, Forestry Development

RUDY A. KRUEGER
Manager, Personnel

DONALD C. MACLEOD
Manager, Aviation

MICHAEL SALTER
Manager, Special Projects and Systems

ROBERT A. TOWLER
Manager, Petrochemicals

WALTER C. YEATES
Manager, Treasury

CORPORATE INFORMATION

Head Office
#1200
10707 - 100 Avenue
Edmonton, Alberta
T5J 3M1

Calgary Office
#2400
639 - Fifth Avenue S.W.
Calgary, Alberta
T2P 0M9

REGISTRAR
National Trust Company, Limited
Edmonton, Alberta

TRANSFER AGENTS
National Trust Company, Limited
Edmonton, Calgary, Vancouver,
Winnipeg, Toronto, Montreal; and
its agent,
Canada Permanent Trust
Company in Regina

STOCK EXCHANGE LISTINGS
Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

AUDITORS
Price Waterhouse & Co.
Chartered Accountants
Edmonton, Alberta

**WHOLLY-OWNED
SUBSIDIARIES:**
Alberta Oil Sands Pipeline Ltd.
AEC Heavy Oil Ltd.
AEC Coal Company Ltd.
Alberta Industrial Gas Suppliers, Ltd.
Alenco Holdings Inc.

AFFILIATES:
AEC Power Ltd. — 66 2/3%
Pan-Alberta Gas Ltd. — 50%
Steel Alberta Ltd. — 50%
Zimpro-AEC Ltd. — 50%

JOINT VENTURES:
Syncrude Project — 10%
Coal Valley Project — 25%
Whitcourt Forestry Complex — 40%
Ethane Gathering System — 33 1/3%
Petrochemicals Alberta Project — 50%

Alberta Energy Company Ltd.

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